

# Wärtsilä Q4 2022 webcast transcript

## Hanna-Maria Heikkinen

Good morning, everybody, and welcome to this results briefing for Wärtsilä Financial Statements Bulletin 2022. My name is Hanna-Maria Heikkinen, I'm in charge of Investor Relations. Today, our CEO Håkan Agnevall will start with the group highlights and continue with the business area performance. And after that, our CFO Arjen Berends will continue with the key financials. After the presentation, there is a possibility to ask questions. Time to start, please, Håkan.

## Håkan Agnevall

Thank you, Hanna-Maria, and welcome everybody. Let's dive into it straight away. If we sum up the full year of 2022, it's been a challenging year. But on the positive side, with strong annual growth. Order intake increased by 6%, net sales has increased by 22%. And we do see continued good progress on the services side. The service order intake increased by 17% and actually exceeded the equipment order intake in absolute terms. The service net sales also increased by 12%. And on the negative side, the comparable operating result declined by 9%. The result was supported by the higher sales volumes, but it was burdened by cost inflation, less favourable sales mix between equipment and services and the cost provision that we released in Q4 for €40 million related to the Olkiluoto nuclear project. 2022 has also been a year of quite a few structural changes. I mean, first we did the orderly exit from the Russian market, and we have completed that. Then we announced our plan to centralise our 4-stroke manufacturing to Vaasa, Finland and to scale down manufacturing in Trieste, Italy. We have also decided to integrate the Voyage business into Marine Power, to strengthen the end-to-end offering and accelerate the Voyage turnaround.

Now, if we look at the numbers, and I will focus a little bit on the Q4 side, if we see the order intake, it went down quarter on quarter from EUR 2.1 to 1.6 billion. It's a 24% decrease. But we should remember that Q4 of 2021 was an all-time high quarter in Wärtsilä's history. And if you look at the order intake of the full year, actually 2022 has the second highest order intake in Wärtsilä's history. The highest year is still 2018. So, from order intake side, I would say a pretty strong year. Services, jumping back to the quarter, is continuing to grow from MEUR 747 to 791, 6% growth. Net sales also growing from EUR 1.6 to 1.8 billion, 11% growth. Book-to-bill: We have been leaving now with a number of quarters above one. Now it's coming down slightly below one. The 12-month rolling is still above one, but it's coming down a little bit in this quarter. Operating result is clearly coming down, 75% from MEUR 144 to 37. And by that from 9% to 2.1%. And similar development on the comparable operating result, down 41% from MEUR 158 million to 93.

So, looking at the Q4 highlights. Net sales, close to EUR 1.8 billion and 4% increase in service sales. The comparable operating result landed at EUR 93 million, which is a 41% decline.

If we look at the marine market, I would say that the market sentiment continued to improve despite the growing macroeconomic concerns. Newbuild investments were moderated due to close to full order books at many yards and also higher newbuild prices. If we look at the number of vessels in Q4, they decreased to 1,538, down from 1,855, year-on-year comparison. Ordering activity was supported by record-high orders for LNG carriers, especially in terms of order value. Fleet utilisation on the passenger travel segment has improved, and the offshore assets reactivation also continued. 466 orders were placed globally for alternative fuel capable vessels, and that represents about 30% of all contracted ships and 60% of the vessel capacity in the review period. The cruise sector focus shifted towards managing the capacity growth and occupancy levels in a profitable way and mitigating the impact of rising operating costs.

Looking at the energy side, we would say that the energy transition outlook is very strong. The energy crisis has brought out a clear need and an ambition for a structural change in the energy sector. And the uncertainty caused by the geopolitical situations continues to affect the investment environment for liquid and gas fuelled power plants and energy storage. I would say the US is moving very strong. Europe is holding back a bit for the moment. Beyond some of the short-term setbacks, the energy transition outlook is very strong and advancing the renewable energy build-up strengthens the security of supply by reducing dependency on fossil fuels. Growth in the demand for the energy storage solutions continued. And a really interesting figure; 42% of our full year thermal order intake was related to balancing power. So balancing is really growing as we speak. Service growth continued, and customers are showing increasing interest in long-term agreements. Our market share for the gas and liquid fuelled power plants increased a notch from 7% to 8%.

Looking at the order increase, overall, the order intake decreased by 24%. The equipment order intake decreased by 40%, but it's from the all-time high quarter last year. Services, on the other hand, the order intake increased by 6%.

We have a strong order book, and the rolling book-to-bill is still above one. And also, if you see where we went out on the last day of 2022, you can see that we are building for deliveries in 2023.

Net sales increased by 11%, the equipment net sales increased by 17% and services net sales increased by 4%.

Technology and partnership. So, what are we doing there? What have we done in the last quarter? The decarbonisation journey continues, and the decarbonisation theme continues. I would say to accelerate, we clearly continue to have a lot of interest from our customers, both on the Energy and on the Marine side. We really feel the strength in the trend. So, a couple of exciting things that we have done in the last quarter. We launched our next-generation grid balancing technology. This is a solution that is based on three fully integrated key components. First, the Wärtsilä 31SG Balancer engine. Then, a concept with prefabricated modules to drive cost efficiency for planned construction. And the third element is the Wärtsilä Lifecycle services. So that combined

is a very interesting customer proposition. The engines can start and ramp up rapidly, do a lot of ramp ups and ramp downs under adverse weather conditions. It's a very robust solution to support intermittent renewable generation. Then we have concluded an exciting test successfully. It's a hydrogen blended fuel on an unmodified engine. So, we are taking an existing engine, we blend in the hydrogen and we run it in full operation. And this is the testing that we did in Michigan, US, in collaboration with WEC Energy Group, EPRI and Burns & McDonnell. And throughout the testing period, this 18 MG Wärtsilä 50SG engine continued to supply power to the grid. And this is really the largest internal combustion engine ever to operate continuously on a hydrogen fuel blend. So, this is a world's first achievement. Then, of course, it's a step to other steps. But we are moving the needle.

Marine Power. Fantastic picture. Marine Power had very good progress in services. And I think the picture actually, this fantastic picture, also reflects the fantastic performance of Marine Power. Service order intake increased by 23% and service net sales increased by 17%. You can see the order intake is up 2%. Net sales were down a little bit with 5%. And if you look at the comparable operating result, it was up from MEUR 75 to 80. And on the positive side, we do see the good service performance and also favourable mix between equipment and services. On the challenging side, we have the cost inflation affecting materials, especially components, transport and test fuel costs. Component unavailability has also been a bit of a challenge, and the high energy prices in general is also having an effect, but in net, a positive development.

And if we look at our service agreement business of Marine Power, it's really developing in a positive way. And net sales from installations under agreement is strongly increasing. And, as you can see, we are now well above the pre-COVID levels. So, really good development in services. Another example that we want to bring is how we are evolving our hybrid propulsion systems, combining batteries and combustion engines. And now we combine the batteries with our methanol engines, and we just got an order for that, which is really exciting. It's a hybrid propulsion system to be supplied for four new heavy lift vessels. They are going to be built at the Wuhu Shipyard in China for SAL Heavy Lift. And our innovative hybrid system will minimise the ship's CO2 emissions, thus supporting the marine sector's decarbonisation. And the system will feature a variable-speed Wärtsilä 32 main engine capable of operating with methanol fuel. And on the hybrid side, we are really in a strong position. We are the market leader with about 25% market share based on installed MWh. It's a very strong and interesting business going forward.

Marine Systems. Net sales were stable and so was the comparable operating result. Service order intake increased by 11%. You can see the order intake came down, mostly driven by the scrubber business. Net sales was up by 6%. And if you look at the comparable operating result, it's a little bit down, but I would say it's rather flat. We have a steady development on the services side, but we have also had lower scrubber volumes in the quarter.

Voyage. Voyage had a positive and improving comparable operating result. Service orders were stable. Order intake was down. You can see, down 21%. Net sales were up a notch, 1%. And, if you see, the positive development on comparing our operating results went from MEUR 1 to 5. The key driver was the higher profitability in services. Then, being able to fully balance the closure of the profitable Russian turnkey business, which is not contributing to Voyage anymore. And also, the cost inflation. Our cloud solutions in Voyage continued to grow. 19% increase in connected vessels. And here we have, I think, a really interesting example of what we can achieve. This is from Carisbrooke Shipping that had really proven that they can improve the environmental footprint using our fleet optimisation solution. So, Carisbrooke Shipping has in 2022, using force, reported a fuel reduction of 5-7%. This is significant. And they saved over 600 tonnes of CO2 emissions. And Carisbrooke, they are responsible for monitoring vessel position, passage plans and routes, advising on maximising cargo intake and monitoring vessel safety and performance. And they use real-time data that enables continuous optimisation of the fuel consumption across the fleet.

I should also say that this was the last time that we reported Voyage in this context. Voyage is now being integrated, as you know, into Marine Power and will be part of the end-to-end offering combining propulsion, fleet optimisation and performance services. And we have also earlier informed that we will present an updated strategy for Voyage in Q1. So that is coming.

Now, Energy. Energy had a challenging quarter. The Olkiluoto cost provisions really burdened the result, and also the challenges with cost inflation remained. The order intake came down from record levels, down 37%, whereas the net sales went up with 28%. And you can really see the significant downturn in comparable operating results from MEUR 64 to actually -8 in the quarter. On the positive side, we have improved cost leverage in Energy storage on the battery side due to high delivery volumes. But the real challenges were the cost provisions of MEUR 40 related to Olkiluoto, the cost inflation in equipment projects and also a less favourable sales mix between equipment and services.

Energy storage net sales continued to grow, and profitability has been improving. The full year comparable operating result was approximately 4% in 2022. This is the figure that I know many have been asking about, and now we are making this public. This is a full year -4% in energy storage.

Some really good examples on the balancing side. Here, we have three different projects, well, three different deliveries. First, our internal combustion engine technology for two new balancing power plants in the Upper Midwest. The Wärtsilä engines were selected primarily for the grid-balancing capabilities as the utility expands its integration of renewable energy in wind and solar, basically. The two plants will operate with Wärtsilä 34DF dual-fuel engines. The first plant will generate 28 MW based on three engines, the second 47 MW of power from five engines. And then we have another balancing example, this time from Basin Electric in the US, 113 MW, also balancing, also integrating renewables, enabling the integration of renewables into the power

system. And it is really this fast starting and stopping in a very short time that can support the intermittent renewables. That is the key trigger, and it's also a rugged solution that can really cope with weather of all types and conditions.

If we look at the Energy service agreements side, we also continue the good development on the coverage, so to say. And you can see that the trend is continuous and it's going in the right direction. Another key part of our business development is all the power system studies that we do, the power system modelling, and we have done quite a few during the recent years. The latest one here is a system modelling that we did for Nigeria, South Africa and Mozambique. The modelling found that renewable energy combined with flexible power can generate enough energy to provide power for close to 100 million people who currently do not have energy access if it is matched with the required grid infrastructure. The report also demonstrated that replacing coal with renewable energy combined with flexibility from engines and energy storage is the most effective way to reduce energy costs, increase energy access and improve reliability. And I think we are doing these studies in many parts of the world, and this is a common conclusion that we reached, so to say.

Now, Arjen, other key financials.

### **Arjen Berends**

I have my own clicker. Thank you. If we look at the other key financials, a few points to highlight on this slide. We had a positive cash flow in Q4, MEUR 51. But, unfortunately, let's say not enough to take the full year to a profitable - sorry, not to a profitable, but to a positive number. Cash flow has been a bit of challenge during the year. It started already in the beginning of the year with a negative working capital at the start, which was really driven by big customer payments that came in in December 2021. And in addition, during the year we also had to raise our inventory levels to facilitate increased spare part business - there is an echo on my mike, OK, now it's better - to facilitate increased spare part business and also to, let's say, to have smooth footprint changes on the 4-stroke side; for example, the ramp up of the Sustainable Technology Hub in Vaasa.

Net debt increased. We paid back MEUR 93 of long-term debt during the year, but due to a low cash flow as well as increase in leases, MEUR 69, also related mainly to the Sustainable Technology Hub in Vaasa, the net debt position went from MEUR 4 to 481. And that, of course, also has an impact on the gearing ratio. Even though the gearing ratio is still at a good level, as you know, we want to be below 0.5. Solvency improved a bit during Q4 but has been around 35% throughout the year 2020. Of course, let's say the negative profitability having a clear impact on the equity in the equation of solvency calculation. Looking at cash flow, the left side graph, you can clearly see the challenging start. We have two quarters with negative operating cash flow and then in the second half of the year we have two quarters with positive operating cash flow, not enough to take the full year to a positive number. And again, let's say the big Q4 gave us somewhat of a back start in the beginning of the year. If we open up a little bit on the fourth quarter standalone, you could say that the operating cash flow generated in Q4

came about 50-50 from one part being the result and the second part being the change in working capital. In particular, trade payables is a big bar here and that is mainly related to purchases for near term deliveries.

Looking at the dividend, as you know, our target is to pay at least 50% of EPS as dividend. And if you look at historical years, that's clearly the case. Now we have a loss making situation, but the Board still proposes EUR 0.26 as dividend for 2022. Back to you, Håkan, on the prospects.

### **Håkan Agnevall**

Thank you, Arjen. So, if we look at the prospects, we go back to giving the prospects for the next 12 months. We now expect the demand environment for the next 12 months in the Marine business, which includes Marine Power and Marine Systems, to be similar to that of last year. And for the energy business, we expect the demand environment to be better than last year. So those were the prospects. Let's move over to the Q&A. I suggest that we do like we normally do, please raise your hand digitally and state your name, etc.. And let's start with one question per person. And then of course, you can come back. So, let's open the floor.

### **Operator**

Okay. First question on the line is from Daniela Costa from Goldman Sachs. Please, open up your microphone and ask your question.

### **Daniela Costa**

Hi. Good morning. Thanks for taking my question. Do you hear me?

### **Håkan Agnevall**

Welcome.

### **Daniela Costa**

Perfect. So, my question is regarding the statement on your outlook, where you talk about, I think you use the words "turning around in Voyage and in Storage". And I wanted to clarify, is that a comment for 2023? Do you expect those businesses to break even already in 2023 or is that more of a medium-term comment? And then just related to this, but there's a comment also that you have more EPC within Storage now. What does that mean for that comment and for the medium-term margin? Thank you.

### **Håkan Agnevall**

So, I would say that our earlier message over a few years still holds, and I think we are moving in the right direction. You could see now on the Storage, the -4. And we say that we have a positive trend, but I still think you should look at this over a few years. And similarly, on the Voyage side, I think we've seen strong Q4s, but there is still a turnaround to be made, so to say, and that will take a few years. And as I said, we will come back to you in Q1 with an updated strategy. That I can clearly say.

**Daniela Costa**

Thank you.

**Arjen Berends**

Storage's strong Q4 is very much driven by a good volume actually, and also good service business.

**Operator**

Next up is Max Yates from Morgan Stanley. Please.

**Max Yates**

Thank you. Can you hear me?

**Håkan Agnevall**

Hello, Max.

**Max Yates**

Yeah, hi. So, I just wanted to ask about how to think about energy margins into next year, because I think you've been quite open in saying that you had some backlog that was impacted by higher component costs. I think you've talked about 2.2 billion of lower margin revenue falling to 1.2 this year. So, I guess when we look at the energy margin and kind of where you were in 2021, is there any reason that we shouldn't get a sort of significant natural uplift just by price cost on orders that you've taken in the second half being a lot more favourable and potentially going back to those 2020, 2021 levels? So I guess, can you confirm that sort of price cost on orders going into the backlog in energy are, I guess, more like 2021 in the thermal business? And how should we think about, maybe, the business in 2022 – sorry, 2023 – compared to what we were doing in 2021?

**Håkan Agnevall**

Thank you, Max. We don't give guidance, of course, on profit margins, etc.. But, I mean, to your point, clearly your observation is right in that, you know, we are working through an order backlog. And your 2.2 for this year, we have still 1.2 approximately to deliver in 2023. But as that transfers through the system, I think we should see more normal levels, so to say. Then I would also say, where we have a positive outlook is on the services side.

**Max Yates**

Okay. And maybe just, sorry, one housekeeping question. Just in terms of your energy storage margin, just to help us understand the overall development of the margin through the year, would you say, without giving me specific numbers, would you say there's significant variability between the storage margin per quarter? Or is it more stable? Is it as seasonal as the overall energy business, or does it tend to be more stable across the quarters?

**Håkan Agnevall**

Now, I would say that it is a fluctuating business. I mean, it is a project business, so you can have movements from one quarter to the other. And this is also why we talk about the -4% over the full year, but we also see an improving trend.

**Max Yates**

Okay. Thank you very much.

**Arjen Berends**

We will continue to provide these numbers every quarter on a rolling 12-month basis.

**Operator**

Next up is Antti Kansanen from SEB. Please.

**Antti Kansanen**

Yes, hello, it's Antti from SEB. My question is on the services, and if we look at the order growth that you had in 2022 and if we exclude FX and some pricing impacts, I guess we are looking maybe a mid-single digit volume growth. Am I in the right ballpark here? And then could you kind of summarise the headwinds and let's say opportunities and challenges going into 2023, especially on the Marine Power and Energy side in terms of volume growth in services?

**Håkan Agnevall**

So, I think the major driver here is, as you know, we're talking about the service value ladder, and we have different steps. I mean, the first step is the more transactional business. We have different types of agreements, we have retrofits and we have performance based. And what is happening right now is that we are growing each step and then, at the same time, we are transferring customers up through the service, I mean, trying to move customers. And we do have some progress in moving customers to agreements and to more advanced agreements. So yes, there is, of course, a price inflationary component, but I do think that the fundamentals are there. And we also see a continued, you could say, organic growth avenue.

**Antti Kansanen**

Would you mind providing any kind of clarification on pricing and FX on service orders in 2022?

**Arjen Berends**

No, we are not giving that number out. Let's say, what we do in price increases I think is competitive, sensitive, so we don't provide that, no.

**Antti Kansanen**

Okay, thank you.

**Operator**

Next up is Vivek Midha from Citi. Please. You can ask your question.



**Håkan Agnevall**

Sorry, we can't hear you.

**Vivek Midha**

Hi, everyone. Thank you very much. Good morning. I wanted to ask or follow up on the order intake in energy. Would you mind giving us a sense of how you expect the energy storage order intake to develop and what sort of impact the Inflation Reduction Act might have in this year I suppose to, say, an uplift next year thereafter? Thank you.

**Håkan Agnevall**

So, if we zoom in on Storage, I think we see a continued positive development. I mean, the market is really growing. I would say it's even growing, excluding IRA. I would say that, in our view, IRA creates a positive sentiment, clearly, or a drive for localising in the US, because of the Buy American Act. But I think we have yet to see the very concrete effects of it, so to say. But the market is still growing. And not only in the US, it's growing, I would say, in many places in the world.

**Arjen Berends**

Clearly a tailwind for storage.

**Håkan Agnevall**

Clearly. But the very concrete effects remain to be seen a little bit.

**Arjen Berends**

Details to be worked out as well, actually, on it.

**Vivek Midha**

That's great. Thank you.

**Operator**

Next up is Sven Weier from UBS. Please.

**Sven Weier**

Yeah, good morning. And just to follow up on the margins, I know you don't give a quantitative outlook here, but just when I look at your qualitative statements in the report, right, you say "we aim to improve profitability". So, to me, that means margins. Is that also excluding the 40 million provision you had in Q4?

**Håkan Agnevall**

I think the 40 million, they were one-time effects. So, I think you should put them aside, quite frankly.

**Sven Weier**

So, you aim to improve margins also, if we were adjusting for this in 2022.

**Håkan Agnevall**

Yes.

**Operator**

Next up is Sebastian Kuenne from RBC. Please.

**Sebastian Kuenne**

I have a question regarding the capacity utilisation in Vaasa and Trieste at the moment. And then, what is the risk that the Trieste facilities will have to stay open beyond September 2023? What's the current update there with the Italian government?

**Håkan Agnevall**

So, basically, we have reached an agreement with all stakeholders, the unions, the regions, the government, on the process and a way forward. And we are working according to that. So right now, during the first quarter, we are making deliveries, from test. And we are also ramping up in Vaasa. And then, according to the scheme, which is public, there will be furlough arrangements going forward according to the process. And then we will basically see in September. And I think the very important thing here is that there are furlough mechanisms in place. So I think we feel a strong support from the Italian, you could say, ecosystem, in making this transition. In parallel with this, and this is also public, we are very active in what is called a reindustrialisation process, and that is basically a process where we try to find other stakeholders to take over the manufacturing, so to say. But that is a parallel process.

**Sebastian Kuenne**

Is there a risk that you will incur further costs there, or do you think that's now all through the books?

**Håkan Agnevall**

No, I think we made provisions for MEUR 132 last year. And I think that the outlook that we are having –

**Arjen Berends**

We announced MEUR 130, and we booked MEUR 90 million last year. So, this year, there will be the remaining part.

**Håkan Agnevall**

Thank you for correcting me. So, we announced provisions for 132, and we still think that we will be able to manage within those boundaries.

**Sebastian Kuenne**

And then, to follow up on energy. I mean, we all know that you had this 50% price hike in Q1 last year and in summer, the input costs were nicely coming down. But now we see copper going up 20% since summer. We have lithium going up 50% since summer.

How do you assess the risk of further price increases now needed to cover your costs on the energy storage?

**Håkan Agnevall**

So on the storage side, what has happened also as a consequence of these, you know, significant price increases we had in Q2. I mean, the model has now changed, so you have material price indices in the contracts. That has been made in a major way, so you could say that we are a little bit more covered for that going forward.

**Sebastian Kuenne**

Thank you.

**Operator**

Next up is Tomi Railo from DNB. Please, you can ask your question.

**Tomi Railo**

Hello, this is Tomi from DNB. A question about the demand outlook. You now give it a full year, as you mentioned. Can you comment the first quarter demand outlook and maybe also your view on the services demand for the full year?

**Håkan Agnevall**

So, since we now go to annual, according to our policy, we will stick with annual, Tomi, so you will have to live with that now. I understand your question, but now, now we stick with our full year. But then, if you look at full year services, which I also understand your question, I think we have a positive outlook. And it's fuelled both by high utilisation of our equipment, with both from the energy and the storage side, and also by our strategy to move up the service value ladder.

**Tomi Railo**

Okay, and if I may continue on the Voyage strategy update. You have earlier said that it will be moved to Marine Power. Does the strategy update possibly mean something else, that it could not necessarily be put on Marine Power, but possibly somewhere else?

**Håkan Agnevall**

From the first of January, it has already been moved. Voyage has been moved to Marine Power, so it's already there. But that is just a starting point of shaping a business that is focussed on this end-to-end offering for optimisation. And this is something we will come back to, how we structure that and how we set this up. We will come back to this in Q1.

**Tomi Railo**

Thank you. And the third, if I may. Energy orders last year didn't include any mega orders like the year before. Do you have that kind of large, very large orders in the pipeline?

**Håkan Agnevall**

Well, you know, there is a lot of things in the pipeline, but I think we have all been following that, these things can shift in time, etc. etc. So, I'm very careful there. I would say that there are always periodisation phenomena. You also know the practice for us to recognise the order intake, we need down payment, etc. etc.. So, you cannot only look at one quarter when you try to assess where we are. I think that if we look at the Thermal side, I would say it's rather stable.

**Arjen Berends**

Yes. It's a good pipeline.

**Tomi Railo**

Thank you.

**Operator**

Next up is Panu Laitinmäki from Danske Bank. Please.

**Panu Laitinmaki**

Thank you. I have two questions regarding Marine. Firstly, on the demand outlook, you expect it to be at the same level as last year. What are your thoughts behind that assumption, given the lower ship orders? Is it so that you see your relevant ship types growing, or what is the thinking behind that? And then, secondly, how do you see the margins developing in 2023? I mean, should we assume support from a kind of mix being a tailwind? And then also, can you comment on the backlog of problem projects? Was it only in Energy or do you still have this in Marine?

**Håkan Agnevall**

Quite a few questions. We take them one by one. So, if we talk about the order backlog, as you know, Russia, we made a major exercise during 2022 in correcting and reshaping the order backlog for Marine. It has been done. So, I would say we have a robust order backlog on the Marine side. And how do we assess the market? I think, as you know, we are active in many segments and we see activities in special vessels, in offshore, in ferries. Cruise is a little bit muted still. We see a little bit of activity also in auxiliaries for merchant. So, yes, the overall figures for the whole market are coming down, but we see activities and interest, also partially driven. You could see this methanol example earlier today with heavy lift. I mean, there are many of these applications and our green offering is feeding in very well to many of these types of customer needs. So, I cannot point at one segment, it's a little bit everywhere.

**Arjen Berends**

And it's good to remember that, let's say, in the marine industry, you have also, let's say, quite stable segments like tugboats and fishing. And so, that is a quite good, stable base of orders basically every year. And then, if you take a ship segment like cruise, if you look at the Clarkson forecast, clearly, let's say 2023, I think it was 20 vessels. It's clearly higher than what we have seen in 2022. I think it was six or seven. So, things are

happening. And I would say the segments that we are typically strong in, we have a pretty okay outlook actually.

**Panu Laitinmaki**

Thanks. That's clear. Can I just kind of clarify on the backlog? I think you gave a number of 1.2 billion continuing into 2023, which is these projects taken before the inflation accelerates. Or is this, like, fully in energy, this number?

**Håkan Agnevall**

I would say it's a bit of a mix, but the gravity is in energy.

**Arjen Berends**

The majority is there. Yes.

**Panu Laitinmaki**

Okay. Thank you.

**Operator**

Next up is Nancy Ni from Goldman Sachs. Please, you can ask your question.

**Nancy Ni**

Hi. Great. Thank you very much for taking my question. I just wanted to touch on your cash flow, and I was just wondering, do you see a quick reversal of your kind of current cash levels, given the working capital impacts and sort of what more can be done there?

**Håkan Agnevall**

I missed the beginning of your question. Can you repeat?

**Nancy Ni**

Yes. Just wondering, on your cash flow, do you see a quick reversal, given it's been hit by sort of working capital, and what else can be done there?

**Håkan Agnevall**

Yeah. Clearly, we do anticipate, let's say, better cash flow in 2023. Let's say a negative cash flow is, of course, not something that we would celebrate. And I explained, let's say, what are the main drivers behind that. And clearly, let's say we expect that to reverse in 2023. Exact timing is difficult to say. There are a lot of moving parts in the working capital, but clearly, we anticipate an improvement this year.

**Nancy Ni**

Okay, thank you.

**Operator**

Next up is John Kim from Deutsche Bank. Please.

**John Kim**

Hi, thanks for the opportunity, everyone. I wanted to go back to storage, if we could. Can you give us some colour on the matter mismatch between the actual lithium price moves and the indexation? And is there a difference between the quarters, or is the trend, or the relationship, fairly steady? Thanks.

**Håkan Agnevall**

Sorry, I hear you a little bit badly. I don't know if it's a bad connection, but can I please ask you to reiterate your question?

**John Kim**

Sure. I was wondering if we could go back to storage. Could you give us some colour or context between how the new indexation, the new contracts are matching the actual price moves in the lithium or the underlying battery costs? And is that relationship noticeably different in the quarters? One follow-up question, please.

**Håkan Agnevall**

Basically, you have a material price clause when you sell something where you have a kind of pass-through mechanism based on lithium prices and some other raw material prices. So, it's a fairly straightforward pass through. And these types of pricing mechanisms became more and more used after the hike of pricing in Q2 last year.

**Arjen Berends**

You could more or less say it's back to back, right?

**Håkan Agnevall**

Yeah, you could say it's back to back.

**John Kim**

Okay, great. And is the lead time or fulfilment time on the storage units similar to last year or is it getting materially better? Thank you.

**Håkan Agnevall**

You mean the delivery lead time?

**John Kim**

Yes.

**Håkan Agnevall**

I would say it's about the same. And I think we've been asked questions about our delivery precision and also our capability to deliver. And I would say that this has been one of our focuses. And I think some of our customers would even say it's one of our strengths, that we deliver on our commitments on time, so to say. And of course, we have valuable supply partners that we are working with. So for us, we are keeping the lead time.

**John Kim**

Okay. Thank you.

**Operator**

Next up is Sean McLoughlin from HSBC. Please. Sean, you're next.

**Sean McLoughlin**

Can you hear me now?

**Håkan Agnevall**

Now we can hear, Sean. Welcome.

**Sean McLoughlin**

Super. Thank you. Firstly, you mentioned earlier about different demand dynamics between the US and Europe. If you could just, I think, add a little bit of colour here, particularly in Europe. I mean, are you seeing effectively capital moving, particularly around decarbonisation, out of Europe towards the US? And my second question, you also made a comment on the shipyards being full. I therefore wonder, is your guidance around similar year-on-year demand around constrained capacity rather than actual underlying demand, particularly for services? Thank you.

**Håkan Agnevall**

So, if we start on the energy side and we talk about the demand environment for, I would say, for balancing both thermal and storage in the US and a little bit contrast with Europe. I mean, we can really see balancing demand moving very fast now in the US, and you saw the examples that I mentioned earlier of order intake, they were all in the US. We see a very strong market development there, both on the thermal but also on the storage side. And IRA will further support this transition. What is happening now? There will be a significant growth of renewables and then you need the balancing power to enable it. So, it's very strong and happening as we speak. In Europe, I think that we all know the energy crisis and I think that the most current focus is to secure gas deliveries and to set, you know, LNG infrastructure, etc.. Unfortunately, many are also retracting to coal. But we see this as, you know, a relatively short-term phenomenon. In parallel, what we do see happening is this strengthening of the focus of moving renewables forward. But I think the major constraint for really accelerating renewables in Europe is permitting. Everybody wants green power, but not in my backyard. And the whole of permitting, as you know, EU is working on a framework on this. But this is a political issue and this is what we see holding back renewables right now, and therefore balancing. But it will come, but in our view, it will take a little bit longer. Then, of course, also with the high gas prices, it creates some commotion and people might wait a little bit. But I also sometimes get the question about the current interest rate, how do they affect you? I would say that our customers, when they do make their investment cases, they have much longer time horizons than, you know, just considering the current interest hike. So we think that Europe will get there, but it will take some time.

**Operator**

Next up is Erkki Vesola from Inderes. Please, you can ask your question.

**Erkki Vesola**

Hello, Håkan and Arjen, can you hear me?

**Håkan Agnevall**

Yes. Welcome.

**Erkki Vesola**

Yes. Regarding these low-margin or even loss-making projects, this EUR 1.2 billion. You previously indicated that this pipeline would be fully exhausted or delivered by Q4. Can you still confirm this? And is there any pattern between quarters? I mean, is it frontloaded, backloaded in Q1, Q3, etc.

**Arjen Berends**

You're talking about the 1.2, Erkki, right?

**Erkki Vesola**

Yes.

**Arjen Berends**

Yes, I would say the majority is probably in the first three quarters, might be a few bits, let's say, into Q4. But by the end of this year, we should be done with it.

**Håkan Agnevall**

And just to clarify, we haven't seen that they are loss-making. We have said that there are projects that have been heavily impacted by inflation.

**Arjen Berends**

Yes.

**Håkan Agnevall**

Just to make sure.

**Erkki Vesola**

Okay. Thank you so much.

**Operator**

Next up is a written question from Vlad Sergievskii from BofA. Could you explain the drivers for a very big MEUR 250 increase in trade payables in Q4 in 2022? Does it have anything to do with higher utilization of supply chain financing facilities? Trade payables to sales now stand at 20%, while historically were around 10%. Do you expect any normalization here given that cost of supply chain financing are rising with higher interest rates?



**Håkan Agnevall**

Good question. Yes. The supply chain finance is definitely, let's say, part of it. Let's say we have at the end of, what is it now, at the end of 2022, I think we have about 49% of our trade payables is supply chain finance, which was earlier I think one year and before that it was 42, if I remember right. So, yes, supply chain finance is clearly part of it. But it's related, of course, to what you buy and what you need to deliver in the near-term future. Supply chain finance is just giving you extra payment time.

**Operator**

Yes. And there's another question from Vlad. On Slide 26 you provide a helpful cash flow bridge. Could you comment on 176 million cash outflow related to other working capital? Does this item include contract assets, unbilled receivables? Thank you.

**Håkan Agnevall**

The whole percentage of completion is part of it, which is of, of course, a lot of moving elements. Yes - answer is yes.

**Operator**

And then there's a question from Sven Weier from UBS. Please.

**Sven Weier**

Yes. Thanks for taking my follow up questions. The first one is on cruise. I think you mentioned 90% of the fleet is back in service. I was just wondering what your expectations are on China reopening? I mean, I guess the China cruise travellers have been absent in the market for a few years now and probably coming back. Do you expect this to give you a further uplift to cruise?

**Håkan Agnevall**

I would say where we see really the stabilising growth for coming back is in the US. I think Europe has been a little bit slower, but it's coming in. And Asia will probably come the last. It's very hard to predict how China and Asia will evolve because it's like trying to predict COVID, you know, and the interaction there between COVID and cruise in Asia. It's a very complex environment, so it's very hard to make any predictions. I think that when we look at the future and our outlook, it's mostly based on North America and Europe.

**Arjen Berends**

And just to add, let's say, of course, our service business, if that's what you refer to, is correlating with running hours and whether the vessel is, let's say, fully utilised by cruise passengers or not. Let's say the ship sails and the running hours, that's what counts for us. So, I'm pretty sure that many cruise operators would love to see more occupancy rates on the on their vessels. So, I think the Chinese are more than welcome.

**Håkan Agnevall**

Absolutely.

**Sven Weier**

Okay, and the other question I had was just on the storage margins. Thanks again for providing the margin for last year. I mean, what's your intention from here? Do you intend to report this on an annual basis now, quarterly basis, or was this an exception now for 2022?

**Håkan Agnevall**

No, our intention is to record on a quarterly basis, rolling 12.

**Sven Weier**

Okay, good. And the last question is...

**Håkan Agnevall**

So, Sven, we have listened to you and your colleagues.

**Sven Weier**

Yeah. Appreciate it. Thank you. The last question I had, if I may, was just on the storage order intake, which in Q4 was down quite a bit sequentially. Is that just the lumpiness? And as you said, the pipeline is generally good and so there's nothing to read into that.

**Håkan Agnevall**

Now, this is, as you put it, a lumpy business. You can have swings quarter-on-quarter. You need to take the rolling 12 as a, you know, look at the longer trends.

**Sven Weier**

So the renewed uptick in the prices that we already talked about didn't have people taking a step back like they did a year ago and re-evaluate? That's not what's happening?

**Håkan Agnevall**

So far, we haven't seen that tendency, no.

**Sven Weier**

Okay. Thank you. That's it.

**Operator**

Next up is Max Yates from Morgan Stanley. Please, you can ask your question.

**Max Yates**

Hi. I just wanted to ask a little bit around, kind of what we're seeing in the service business in energy. And I guess what I was wondering, I mean, now that the storage business is kind of a fairly considerable part of revenues, that's sort of MEUR 774 for the full year. Are you able to give us a feel for how much service that's generating? And,

I guess, could you also talk a little bit about, you've talked about thermal balancing orders becoming a much bigger part of the equipment orders. I also wonder how the service business on that thermal business, as you deliver those, is comparing to, say, your traditional business. So, kind of two questions. One, is the thermal service business, sort of, are you seeing lower revenues when it's for balancing? And then the second one is just around service, some help around how the service business for storage has evolved within that MEUR 775? Thank you.

### **Håkan Agnevall**

So, service for thermal balancing, it's a little bit early to say because we are – the really off-take on the balancing side, it is only a couple of years back. What we have seen, if you look at a little bit older, transitional base load, etcetera, etcetera, the machines are running much more than maybe the customers originally had envisioned. So, we don't see on those old installations a downturn on the service business so to say.

Theoretically, you could – which is perfectly viable if the customers will run their engines 3,000 hours or less, then of course, there will be less maintenance. But – and this is part of our strategy is to move up the service value ladder going for more performance-based arrangement and sharing up and downsize. And as you know, we launched our decarbonization services business last year, and we are evolving that. It's still relatively small. But we have a fairly optimistic view on the service business in thermal base load balancing going forward. If we talk storage, it's clearly so that it's a smaller portion, much smaller portion because there are no moving parts. And there is a power system optimization, digital service, but still I would say, it's a rather small share of storage. It's – still today, it's a significant in equipment business.

### **Max Yates**

That's helpful. Thank you very much.

### **Operator**

Next up is Erkki Vesola from Inderes, please. You can ask your question.

### **Erkki Vesola**

Yes. Many thanks for that. Regarding the storage profitability in 2021, have you calculated this what I am of course, after is the delta between 2021 and 2022 in terms of storage profitability?

### **Håkan Agnevall**

It's a good question, but we don't go into those details. I think we start with a minus 4% now it's one step forward.

### **Arjen Berends**

We are forward-looking, not backward-looking. Backward is to learn from.

**Håkan Agnevall**

I mean this is of course, a business – sorry, just to – this is a business that is growing very, very fast. So, yes, let's focus on the future and the future profitability.

**Erkki Vesola**

We should. Thanks.

**Hanna-Maria Heikkinen**

Thank you, Erkki and thank you all of you for great questions. Thank you, Håkan and thank you, Arjen, for presentation. Wärtsilä Q1 report will be published on April 25. In the meanwhile, I hope that you can also enjoy the warm winter this year. Thank you.

**Håkan Agnevall**

Thanks a lot.